

# Mark Scheme (Results)

Summer 2014

GCE Business Studies (6BS04/01)

Unit 4A: Making Business Decisions

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## General Marking Guidance

- All candidates must receive the same treatment. Examiners must mark the first candidate in exactly the same way as they mark the last.
- Mark schemes should be applied positively. Candidates must be rewarded for what they have shown they can do rather than penalised for omissions.
- Examiners should mark according to the mark scheme not according to their perception of where the grade boundaries may lie.
- There is no ceiling on achievement. All marks on the mark scheme should be used appropriately.
- All the marks on the mark scheme are designed to be awarded. Examiners should always award full marks if deserved, i.e. if the answer matches the mark scheme. Examiners should also be prepared to award zero marks if the candidate's response is not worthy of credit according to the mark scheme.
- Marks may be awarded for any correct responses, not just the indicative answers which appear on the mark scheme.
- Where some judgement is required, mark schemes will provide the principles by which marks will be awarded and exemplification may be limited.
- The requirement to define business terms is implicit within the questions and marks are awarded for this.
- When examiners are in doubt regarding the application of the mark scheme to a candidate's response, the team leader must be consulted.
- Crossed out work should be marked UNLESS the candidate has replaced it with an alternative response.
- Quality of written communication will be assessed in Section B, Question 7a & 7b. The mark scheme for this question will indicate which strands of Quality of Written Communication are being assessed. The strands are as follows:
  - i) ensure that text is legible and that spelling, punctuation and grammar are accurate so that meaning is clear;
  - ii) select and use a form and style of writing appropriate to purpose and to complex subject matter;
  - iii) organise information clearly and coherently, using specialist vocabulary where appropriate.

Question Number	Question	
1.	What is meant by the term 'diseconomies of scale'?	
	Answer	<b>Mark</b>
	<p><b>Knowledge up to 2</b></p> <ul style="list-style-type: none"> <li>• Where Average Costs/Unit Costs increase (1 mark) with an increase in output (1 mark)</li> <li>• Increase/growth in size of a business causes inefficiency (1 mark)</li> <li>• 1 mark for partial or vague definition but a valid example lifts to 2 marks.</li> </ul> <p><b>NB Candidate must refer to Average/Unit Costs and increase in size/output for two marks.</b></p> <ul style="list-style-type: none"> <li>• Any other suitable alternative</li> </ul>	<b>1-2</b>

Question Number	Question	
2.	What is meant by the term 'payback period'? (See Additional Evidence I line #)	
	Answer	<b>Mark</b>
	<p><b>Knowledge up to 2:</b></p> <ul style="list-style-type: none"> <li>• The time period for the original financial investment cost (1 mark) of a project to be fully recovered (1 mark)</li> <li>• The length of time (1 mark) the money invested is at risk (1 mark)</li> <li>• Payback formula: sum invested/net cash per time period (2 marks)</li> <li>• 1 mark for partial or vague definition but a valid example lifts to 2 marks.</li> <li>• Any other suitable alternative.</li> </ul>	<b>1-2</b>

Question Number	Question	
3.	Explain <b>one</b> benefit to Greggs of having a strategy of 'organic growth'.	
	Answer	<b>Mark</b>
	<p><b>Knowledge and understanding 1</b></p> <ul style="list-style-type: none"> <li>• Is also known as internal growth (1 mark)</li> <li>• It does not involve other businesses (1 mark)</li> <li>• It does not involve takeover (1 mark)</li> </ul> <p><b>Application 1</b></p> <ul style="list-style-type: none"> <li>• Greggs is opening its own/new stores/shops (1 mark)</li> <li>• Greggs is opening a new range of coffee shops (1 mark)</li> <li>• Greggs is keeping the same number of bakeries (1 mark)</li> <li>• Greggs has a lot of cash on its balance sheet (1 mark)</li> </ul> <p><b>Analysis up to 2</b></p> <ul style="list-style-type: none"> <li>• Greggs is in full control of organic growth as it does not involve other businesses (1 mark) which therefore avoids possible culture clashes (1 mark)</li> <li>• Large amount of cash means that such expansion will not bear loan interest (1 mark) which could reduce the cost of expansion (1 mark)</li> </ul>	<p style="text-align: center;"><b>1</b></p> <p style="text-align: center;"><b>1</b></p> <p style="text-align: center;"><b>1 - 2</b></p> <p style="text-align: center;"><b>Total (4 marks)</b></p>

Question Number	Question	
4.	Explain <b>one</b> reason why Greggs' corporate culture could be important during its expansion.	
	Answer	<b>Mark</b>
	<p><b>Knowledge 1 mark</b></p> <ul style="list-style-type: none"> <li>• Culture is 'the way things are done around here' / is the norms and values of an organisation (1 mark)</li> <li>• Identification of Handy's cultures (Role, Power, Task, Person) (1 mark)</li> <li>• To maintain success (1 mark)</li> </ul> <p><b>Application 1 mark</b></p> <ul style="list-style-type: none"> <li>• Greggs grew from a family business/Greggs offer schemes such as Save as you Earn (1 mark)</li> <li>• Greggs have maintained 10 bakeries (1 mark)</li> </ul> <p><b>Analysis up to 2 marks</b></p> <ul style="list-style-type: none"> <li>• Employees may feel valued because their opinions are sought and listened to (1 mark) which is more likely to lead to improved staff motivation/better customer service.(1 mark)</li> <li>• New Greggs outlets are to be supplied by the existing 10 bakeries which means that some of the original family/regional culture may be kept (1 mark) as production stays where it has been traditionally located (1 mark)</li> <li>• Growing too quickly could damage the family culture (1 mark) as they recruit new staff who don't share the values (1 mark)</li> </ul>	<p><b>1</b></p> <p><b>1</b></p> <p><b>1 - 2</b></p> <p><b>Total (4 marks)</b></p>

Question Number	Question	
5. (a)	Using Evidence B, calculate Greggs Return on Capital Employed (ROCE) for 2010 <b>and</b> 2011	
	Answer	<b>Mark</b>
	<p><b>Knowledge, up to 2 marks</b></p> <p>Return on Capital Employed = <math>\frac{\text{Net Profit}}{\text{Capital Employed}} \times 100</math></p> <p>Some understanding of profitability - allow 1 mark</p> <p><b>Application, up to 2 marks (1 mark per year)</b></p> <p>ROCE ratios: 2010: <math>52523/176227 \times 100 = 29.80\%</math> (30%)</p> <p>2011: <math>60500/198383 \times 100 = 30.49\%</math> (30%)</p> <p>Cap at 3 for 2 correct answers without % e.g. 30</p> <p>Cap at 3 marks for correct calculations with %, but years the wrong way round.</p> <p><b>NB:</b> if both answers are correct and no workings (4 marks)</p>	<p><b>2</b></p> <p><b>1</b> <b>1</b></p>



Question Number	Question	
5. (b)	Assuming the typical ROCE of Greggs competitors is 10%, comment on the results of your calculations.	
	Answer	Mark
OFR applies	<p><b>Application up to 2 marks – actually uses data in commentary</b></p> <ul style="list-style-type: none"> <li>• Both ROCE figures are 20% points higher than competitors (1 mark)</li> <li>• Stable figure (30%/30%) (1 mark)</li> <li>• 0.7% point increase (1 mark) OR 29.8% to 30.5% (1 mark)</li> </ul> <p><b>Analysis up to 2 marks – interpreting results</b></p> <ul style="list-style-type: none"> <li>• Higher ROCE represents a better profitability by Greggs (1 mark)</li> <li>• Higher ROCE is more likely to encourage investors to buy Greggs shares (1 mark)</li> <li>• This means Greggs ability to generate profit from inputs of capital has remained the same (1 mark) even though Greggs has expanded (1 mark)</li> <li>• This shows Greggs are improving slightly against typical competitors (1 mark) meaning the returns on Greggs investments will be greater than investing in their competitors (1 mark)</li> <li>• The better return on capital employed compared to competitors (1 mark) could be attractive to other investors which would help fund Greggs' expansion plans (1 mark)</li> </ul>	<p style="text-align: center;"><b>2</b></p> <p style="text-align: center;"><b>2</b></p> <p style="text-align: center;"><b>Total 8 marks</b></p>

Question Number	Question		
6.	Assess whether Greggs' current staff benefits are likely to improve its human resource competitiveness.		
Level	Mark	Descriptor	Possible Content
Level 1	1-2	Candidate shows knowledge of Human Resource Competiveness	<ul style="list-style-type: none"> <li>• Could be measured by labour turnover and labour productivity</li> <li>• Human Resource competitiveness measures the degree to which a business' HR gives it a competitive advantage</li> <li>• Labour turnover is calculated: number of employees leaving within 1 year/total employees X100</li> <li>• Labour productivity: output per worker, per time period</li> </ul>
Level 2	3-4	Answers should be applied to Greggs staff benefits (Evidence G) or Evidence F	<ul style="list-style-type: none"> <li>• Greggs staff are rewarded with Save. As You Earn schemes; Lots of incentives etc.</li> <li>• Labour turnover was 33-50%</li> </ul>
Level 3	5-6	<p>Candidate analyse using reasons/causes/consequences/costs of the link between staff benefits and HRC.</p> <p>Arguments will be one-sided.</p> <p><b>Cap at 5 marks for no accurate knowledge of Human Resource Competiveness (Labour turnover or Labour productivity).</b></p> <p><b>Cap at 5 marks for analysis of staff benefits in relation to Human Resource Competiveness, but not in context.</b></p>	<ul style="list-style-type: none"> <li>• This means they may work harder and become more productive because Greggs staff feel valued as they receive a share of the profit. .</li> <li>• Employees may be less likely to leave the business because their holiday entitlement increases with years of service which could reduce labour turnover</li> </ul>

<p><b>Level 4</b></p>	<p><b>7-10</b></p>	<p><u>Low Level 4: 7 - 8 marks</u>  Arguments for and against staff benefits being an important factor</p> <p><u>High Level 4: 9 -10 marks</u>  Expect to see convincing evaluative points with a conclusion.</p>	<ul style="list-style-type: none"> <li>• Staff benefits are available but it could be argued that they are not that important because staff might prefer higher pay</li> <li>• Some of the benefits are not really unique because they are either statutory e.g. childcare benefits or offered by other competitors so therefore will not provide HRC</li> <li>• Evidence F suggests that other factors such as the perceptions of new workers when they join the company might help to reduce labour turnover</li> <li>• Greggs staff are mainly low paid and low skilled, so while the benefits may have some attraction, the culture/atmosphere of the work-place and the nature of colleagues may be the most important factor (MOPS)</li> </ul>
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Question Number	Question		
7.(a) QWC i-iii	Assess the likely implications on Greggs' corporate strategy of applying VAT to hot takeaway food.		
Level	Mark	Descriptor	Possible Content
Level 1	1-3	<p>Candidate shows knowledge of corporate strategy and/or political change.</p> <p><i>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text</i></p>	<ul style="list-style-type: none"> <li>• Corporate strategy refers to the overall policies used by a business to achieve a desired aim</li> <li>• Corporate strategy can be any policies used that affect the functional areas of a business e.g. pricing, product mix, staffing, location etc.</li> <li>• Political influence refers to government policy and changes in the law</li> <li>• Value Added Tax (VAT) is a sales tax set at 20% in the UK</li> </ul>
Level 2	4-7	<p>Candidate applies knowledge of corporate strategy and/or political change to Greggs.</p> <p><u>Low Level 2: 4-5 marks</u> Application is weak.</p> <p><u>High Level 2: 6-7 marks</u> Application to Greggs of these changes.</p> <p><i>The candidate may use some business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> <li>• Could increase price of sausage rolls</li> <li>• Team Members wages may be affected</li> <li>• Greggs high profit/ROCE could be reduced</li> <li>• VAT imposition might limit Greggs corporate strategy of expansion</li> <li>• Greggs may look to move into new products (coffee shops)/or new markets (motorway service stations (Ansoff)</li> <li>• Greggs may focus more on a differentiated strategy (coffee shops in baker shops) (Porter)</li> </ul>
Level 3	8-14	<p><u>Low level 3: 8 – 9 marks</u> Candidate will <b>attempt very basic analysis of the effects</b> on corporate strategy of the VAT change.</p>	<ul style="list-style-type: none"> <li>• If Greggs increase prices this could lead to a fall in sales because customers are seeking value for money</li> </ul>

		<p>One reason/cause/cost and /or consequences is outlined.</p> <p><b>Cap at 8 for no context.</b></p> <p><u>Medium level 3: 10 – 11 marks</u> Candidates looks at two of reasons/causes/costs and/or consequences of the VAT imposition on corporate strategy</p> <p><u>High Level 3: 12 – 14 marks</u> Analysis is wide-ranging; three or more well explained reasons/causes/costs and/or consequences are outlined.</p> <p>Answer will be one-sided.</p> <p><i>The candidate uses Business terminology quite well/style of writing is appropriate for the question/ reasonable to good spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> <li>• The addition of VAT on their main products may reduce their sales revenue which limits Greggs ability to offer generous staff benefits</li> <li>• If Greggs decide to absorb or pass on the VAT imposition there could be a reduction in profit due to higher costs and/or lower sales</li> <li>• VAT imposition will limit Greggs expansion plans because if the tax is passed on to customers sales are likely to fall thus reducing their funds for expansion (as they are following a strategy of internal growth)</li> <li>• If demand for Greggs products is price elastic, and prices are increased then the demand and revenue for Greggs will fall</li> <li>• Marketing strategy may need to move away from a focus on price and highlight other features such as new products (Ansoff) or place greater emphasis on differentiation of the product from competitors (Porter)</li> </ul>
<p><b>Level 4</b></p>	<p><b>15-20</b></p>	<p><u>Low Level 4: 15-16</u> One attempt to evaluate changing corporate strategy due to VAT imposition <b>One side in context cap at 15</b></p> <p><u>Mid Level 4: 17-18</u> Two or more evaluative points on changing corporate strategy due to VAT imposition</p>	<ul style="list-style-type: none"> <li>• Corporate strategy is very difficult for Greggs to change as they have already committed to many of the new store purchases</li> <li>• Greggs are in a very strong financial situation as they have no external borrowings – this means that there may be scope to</li> </ul>

	<p><b>Both sides in context</b></p> <p><u>High Level 4: 19-20</u>  Candidate will make a clear conclusion as to the possible effects on Greggs corporate strategy (MOPS).</p> <p><i>Answer is clear, and the candidate makes good use of terminology and toolkit. Candidate uses business terminology fluently with good spelling, punctuation and grammar.</i></p>	<p>absorb some/all the VAT rise without hitting sales</p> <ul style="list-style-type: none"> <li>• Other factors such as freshness and convenience are important to the Greggs brand, so passing on the VAT rise might be possible without putting off customers</li> <li>• The imposition of VAT simply puts Greggs in the same situation as other takeaway food businesses, so they will have to deploy resources towards marketing etc.</li> </ul>
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Question Number	Question		
7b	Evaluate Greggs' expansion plans with reference to potential conflicts between profit-based objectives and socially responsible behaviour. (30 marks)		
Level	Mark	Descriptor	Possible Content
Level 1	1-3	<p>Candidate shows knowledge of profit-based objectives and/or social responsibility</p> <p><i>Written communication may be poor with frequent errors in spelling, punctuation and grammar and a weak style and structure of writing. There may be problems with the legibility of the text</i></p>	<ul style="list-style-type: none"> <li>• Profit-based objectives are financial and relate to achieving a desired profit figure and/or growth</li> <li>• Social responsibility aims to consider the impact of business activity on wider stakeholder groups, minimising negative social costs</li> <li>• Expansion plans are an example of the profit motive in action</li> </ul>
Level 2	4-7	<p>Candidate applies knowledge of Corporate Social responsibility <b>and/or</b> profit motives to Greggs' expansion plans.</p> <p><u>Low Level 2: 4 - 5 marks</u> Application is weak.</p> <p><u>High Level 2: 6 -7 marks</u> Application of CSR <b>and</b> profit motives to Greggs expansion plans.</p> <p><i>The candidate may use some business terminology but the style of writing could be better/there may be some errors in spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> <li>• Greggs's are a plc and therefore have shareholders expecting a dividend from their investment – profit objective</li> <li>• Gregg's attempt to be socially responsible through schemes such as Greggs' family and save as your earn</li> <li>• Greggs are expanding through 600 new shops/motorway services</li> </ul>

<p><b>Level 3</b></p>	<p><b>8 - 16</b></p>	<p><u>Low level 3: 8 – 10 marks</u> Candidate will attempt very basic analysis of how CSR and profit based motives may conflict.</p> <p>One reasons/causes/costs and /or consequences are outlined.</p> <p><b>Cap at 8 for no context.</b></p> <p><u>Medium level 3: 11 – 13 marks</u> Candidates look at two reasons/causes/costs and/or consequences of how CSR and profit based motives may conflict.</p> <p><u>High Level 3: 14 – 16 marks</u> Analysis is wide-ranging; three or more well explained reasons/causes/costs and/or consequences are outlined.</p> <p>Answer will be one-sided.</p> <p><i>The candidate uses Business terminology quite well/style of writing is appropriate for the question/ reasonable to good spelling, punctuation and grammar.</i></p>	<ul style="list-style-type: none"> <li>• Greggs' profits are increasing between 2010 and 2011 and the expansion plans are an effort to continue this expansion; this expansion is likely to be at the expense of local bakers who are unable to compete with the lower prices Greggs charge (not very socially responsible)</li> <li>• Greggs' high staff turnover (Evidence F) could be a result of low wages and poor working conditions, suggesting that the profit motive is more important than the welfare of Greggs' workers</li> <li>• Greggs' products have been suggested to be unhealthy and cheaply produced, which imposes the social cost of poor health and obesity on its customers</li> </ul>
<p><b>Level 4</b></p>	<p><b>17-30</b></p>	<p><u>Threshold level 4: 17 – 18 marks</u> <b>One side in context cap at 17</b></p> <p>18: One limited attempt to evaluate in context how CSR and profit based motives may conflict.</p>	<ul style="list-style-type: none"> <li>• Greggs' expansion plans could be argued to be socially responsible as they increase job opportunities in areas where these are lower</li> <li>• The work of Greggs Foundation would not be possible if the business</li> </ul>



	<p><u>Low Level 4: 19- 21</u> Two evaluative points made on how CSR and profit based motives may conflict.. Both sides in context</p> <p><u>Mid Level 4: 22 - 24</u> Three or more evaluative points on how CSR and profit based motives may conflict.. Both sides in context</p> <p><u>High Level 4: 25 -30</u> Candidate will make a clear conclusion about the degree to which CSR and profit based motives may conflict (MOPS).</p> <p><i>Answer is clear, and the candidate makes good use of terminology and toolkit. Candidate uses business terminology fluently with good spelling, punctuation and grammar.</i></p>	<p>were not so profitable, so rather than conflicting, profit and CSR go hand in hand</p> <ul style="list-style-type: none"> <li>• Socially responsible actions such as the Greggs Foundation and expansion into areas of high unemployment could help to improve Greggs' image and therefore, leads to increased sales.</li> <li>• Overall, Greggs is a plc and has shareholders and therefore the profit motive is likely to be extremely important because they expect a dividend. While it is probable that some smaller bakeries may face closure due to Gregg's plans, benefits such as Greggs' Foundation suggest that CSR does not necessarily conflict with profit.</li> </ul>
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